

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**SB 481 - HB 951**

March 31, 2011

**SUMMARY OF BILL:** Prohibits a health insurance carrier from making changes to policies, procedures, payment methodologies, or claims processing edits that have the effect of lowering negotiated rates of a hospital under contract with the carrier unless agreed to by the hospital.

**ESTIMATED FISCAL IMPACT:**

**Increase State Expenditures - \$9,271,700**

**Increase Local Expenditures – Not Significant**

**Increase Federal Expenditures - \$18,186,300**

**Potential Impact on Health Insurance Premiums (required by Tenn. Code Ann. § 3-2-111): Such legislation would not result in a significant increase in the cost of health insurance premiums due to a delay in hospital reimbursement rate reductions.**

**Assumptions:**

- The Department of Commerce and Insurance will ensure compliance with the legislation through the investigation of complaints received from the hospitals. Any cost can be accommodated within existing resources without an increased appropriation or reduced reversion.
- According to the Bureau of TennCare, the average time frame for negotiating and implementing rate changes between managed care organizations (MCOs) and hospitals is three months. The bill will prohibit the MCOs from implementing any rate changes in response to proposed budget reductions for at least three months. The proposed FY11-12 budget reduction in hospital reimbursement is \$109,832,000.
- One-fourth, or \$27,458,000 ( $\$109,832,000 / 4$ ), represents three months of reimbursements. Of this amount, \$9,271,743 will be state funds at a rate of 33.767 percent and \$18,186,257 will be federal funds at a match rate of 66.233 percent.
- Any delay in the implementation of hospital rate reductions by the state sponsored public sector plan until after negotiations will not have a significant net impact on future costs incurred by the plan.

- Local governments that provide health insurance to employees that do not opt into the state sponsored plans will not incur a significant increase in costs for a delay in the implementation in hospital reimbursement rates.
- Private health insurance impact: Health insurance companies will not be able to implement hospital reimbursement rate reductions until those rates have been negotiated with hospitals. While this may delay some rate reductions, health insurance providers can make adjustments so that incurred costs will not be sufficient enough to shift such costs to enrollees through increased premiums.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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